

Consumer Morsel

Are rising insurance payments crimping consumers?

30 August 2023

Key takeaways

- We use aggregated and anonymized Bank of America internal data to analyze how rising auto and home insurance premiums are impacting consumers. We find homeowners' median payments have risen by an annual average of 5.7% over the last three years.
- At the state level there is significant variation, with some southern states amongst the biggest risers.
- So what's next? There appear to be both short- and medium-term upside influences on insurance payments, including labor shortages in the vehicle repair sector and the apparent increasing frequency of disruptive weather events.

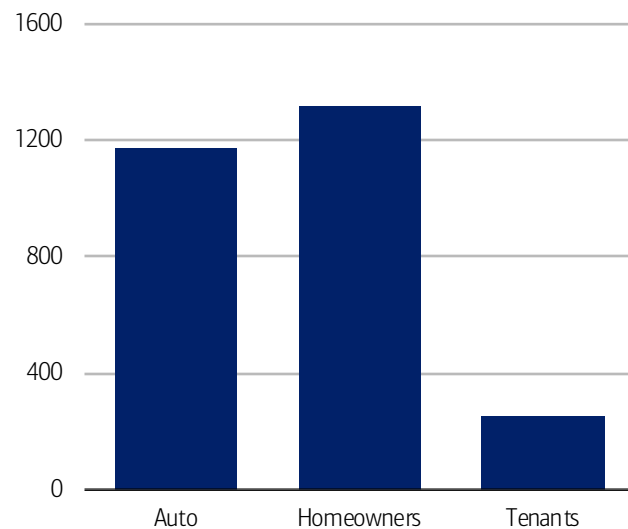
Insurance premiums are a significant outlay for households

Property insurance, including auto and home, is a significant outlay for many households. As Exhibit 1 shows, while tenants' insurance is lower, homeowners who own one car faced an aggregate premium of around \$2,500 in 2020, according to data from the National Association of Insurance Commissioners. In 2020 that would equate to around 3.6% of a homeowners' household expenditure as measured by the Bureau of Labor Statistics (BLS).

At the start of the pandemic, shelter-in-place mandates led to rebates on auto insurance policies to reflect the lack of driving that occurred in 2020, giving households some relief on their insurance bills. But how have things developed since then? And are rising insurance premiums sapping consumers' spending power?

Exhibit 1: Average premiums for auto, homeowners' and tenant insurance (2020, \$)

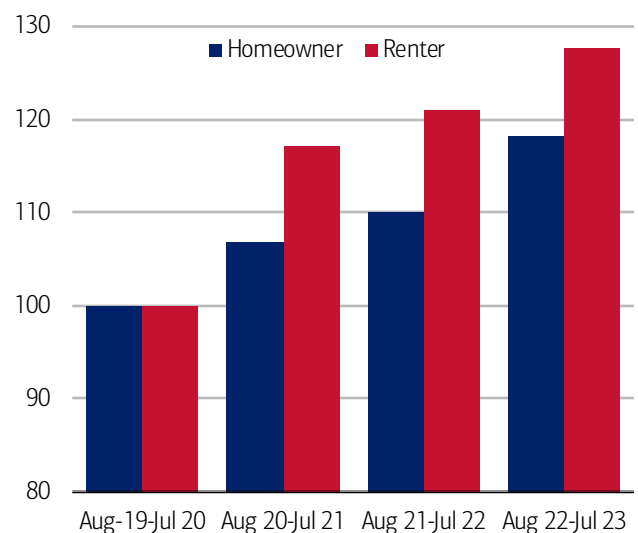
Home and auto insurance is a significant outlay for households



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Exhibit 2: Index of median annual payment for property insurance according to Bank of America internal data, split by homeowners and renters (Aug-2019-July-2020 = 100)

Median insurance payments have risen significantly since 2019/20



Source: Bank of America internal data

To get a sense of how rising property insurance prices are impacting the typical consumer we have used internal aggregated and anonymized Bank of America customer data to track automated clearing house (ACH), credit, debit card and bill pay payments for auto and home insurance. As we cannot differentiate whether someone is sending money to an insurance provider for their home or auto insurance, we consider them together.

What do we find in our data?

Because people pay their insurance at differing frequencies – some pay monthly, others quarterly or annually – we look at how the payment over the 12 months to July 2023 has changed relative to similar periods to July 2022, 2021 and 2020. We also consider a constant set of households who have resided in the same state over these four years. Given home insurance is regulated at the state level, we do not want moves across states in our sample to skew our data.

Exhibit 2 shows how the median payment for property insurance has changed over the last four years, according to Bank of America data. We split the data by homeowners or renters – where a household is both, we consider them an owner, as they will likely pay for homeowners’ insurance on at least one property.

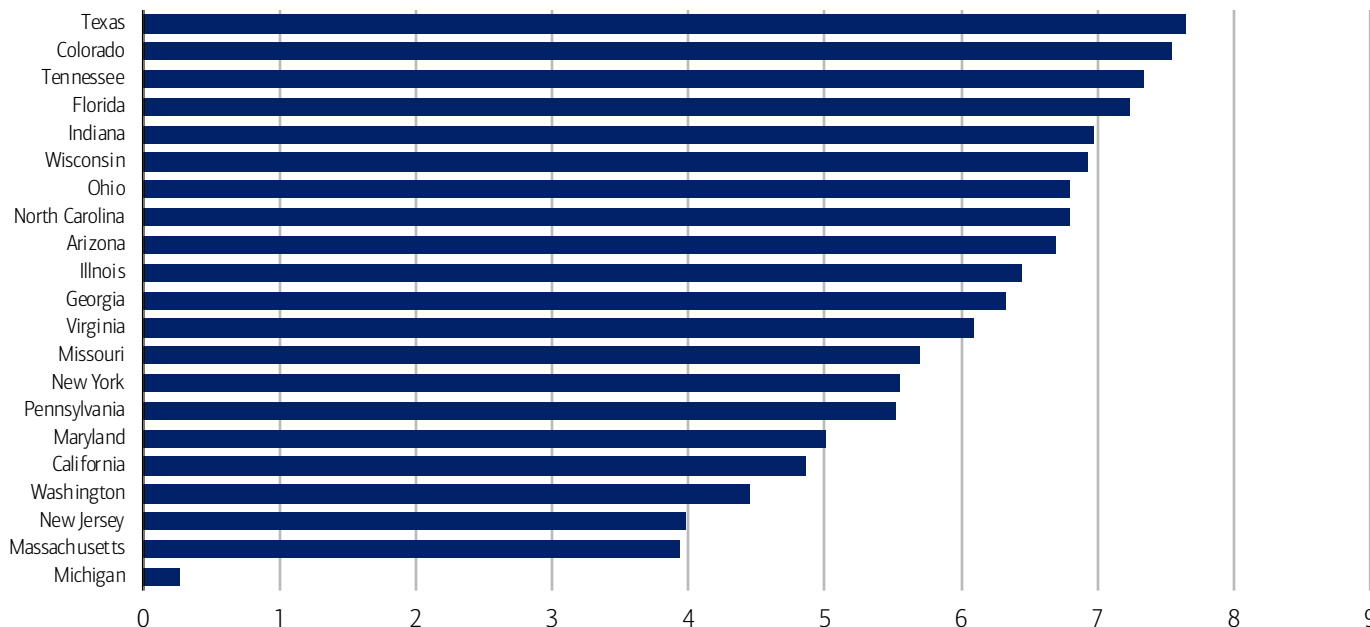
We find a significant rise in median property insurance payments over this period. For homeowners, this equates to 18%, or a three-year compound average growth rate (CAGR) of 5.7% per year. For renters, the increase is larger, at 27.6% (a CAGR of 8.5%) – though the absolute level in dollars is lower.

Variation across the US

Exhibit 3 shows the average increases over the last three years across the US. It appears some states in the South, such as Texas, Tennessee and Florida have seen some of the larger rises, though there is considerable variation across the US. At the other end of the spectrum, the minimal increase in Michigan largely reflects legal changes made in 2019. More broadly, states in the Northeast generally have some of the smaller increases.

Exhibit 3: 3-year CAGR for property (auto and home) insurance by largest 20 states (%)

There is considerable regional variation in insurance increases over the last three years



Source: Bank of America internal data. Data is for a fixed universe of homeowners.

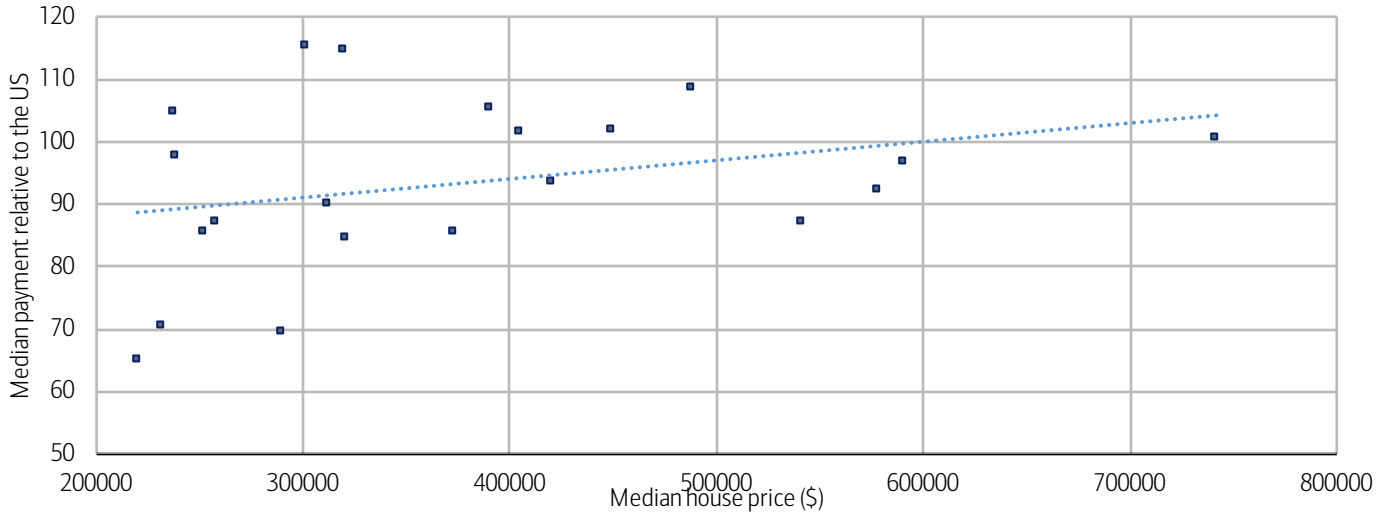
Short- and medium-term upsides on prices

The big question is how trends will develop and whether consumers will see more of their income, and potential discretionary spending, needing to be allocated to insurance?

Higher house prices would usually imply higher insurance payments. Exhibit 4 shows that this assumption is partially borne out in our total property insurance payment data, though there is significant variation. Overall US house price growth has moderated significantly in 2023 from the rapid increases seen in 2021 and 2022. But Bank of America Institute’s recent [On the Move](#) publication points to continued migration into southern cities, which could imply relatively more upward pressure on house prices in these areas – likely meaning further pressure on home insurance payments, too.

Exhibit 4: Relationship between median annual payment for property insurance and median house price by largest 20 states

There is some positive relationship between states' house prices and property insurance payments



Source: Bank of America internal data, Haver Analytics. Data is for a fixed universe of homeowners. Each dot represents a state. House price data as of July 2023, Insurance payment medians as of August-July 2023.

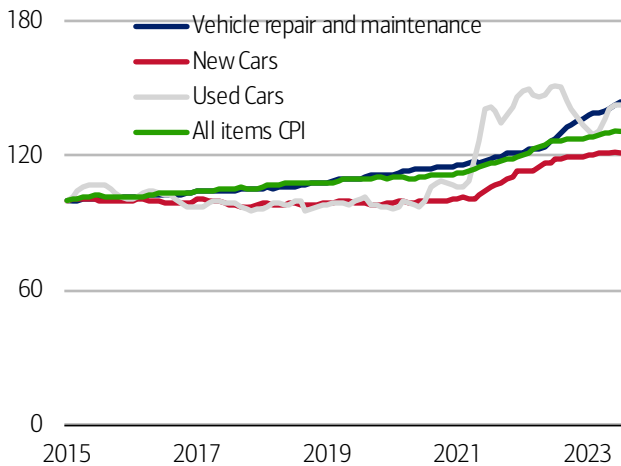
For auto insurance, there are also a number of short-term upside pressures on insurance premiums that, we believe, might continue for some time. For example, the cost of repairing vehicles has been rising significantly (Exhibit 5), which appears to partly reflect labor shortages in this area. Given the tight US labor market, these issues may persist for some time. Additionally, while used-car prices may have peaked, they remain elevated relative to pre-pandemic levels. Higher vehicle prices, other things being equal, will likely mean higher replacement costs and higher insurance.

In the more medium term, insurance costs are also likely to face upward pressure from climate change. Most obviously, this impacts home insurance, though vehicles are not immune from environmental risks either. The National Oceanic and Atmospheric Administration (NOAA) estimates, as of August 2023, there have been 15 confirmed weather/climate disaster events with losses exceeding \$1 billion each, affecting the US. Exhibit 6 illustrates the apparent upward trend in costly weather events – the 1980-2022 annual average is 8.1 events (CPI-adjusted), while the annual average for the most recent five years (2018-2022) is 18 (CPI-adjusted).

If this rise in weather-related events continues, it may put further pressure on property insurance premiums. It is also worth highlighting that many home insurance policies do not cover flood risk. So, consumers may either need to bear the direct costs themselves or take out additional insurance to cover this risk – another overhead to manage.

Exhibit 5: Consumer price indices (Monthly, January 2015=100)

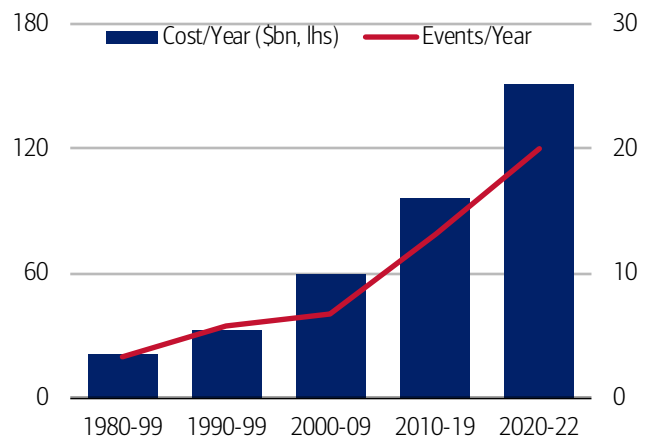
The cost of repairing vehicles has been rising



Source: Haver Analytics

Exhibit 6: Average inflation adjusted cost (\$bn) and number of billion dollar weather events per year

Billion dollar weather events seem to be rising in frequency



Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2023).

Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Any payments data represents aggregated spend from US Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Aggregated spend include total credit card, debit card, ACH, wires, bill pay, business/peer-to-peer, cash and checks.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and generally defined as under \$5mm in annual sales revenue.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

The differences between the total and per household card spending growth rate can be explained by the following reasons:

1. Overall total card spending growth is partially boosted by the growth in the number of active cardholders in our sample. This could be due to an increasing customer base or inactive customers using their cards more frequently.
2. Per household card spending growth only looks at households that complete at least five transactions with Bank of America cards in the month. Per household spending growth isolates impacts from a changing sample size, which could be unrelated to underlying economic momentum, and potential spending volatility from less active users.
3. Overall total card spending includes small business card spending while per household card spending does not.
4. Differences due to using processing dates (total card spending) versus transaction date (per household card spending).
5. Other differences including household formations due to young adults moving in and out of their parent's houses during COVID.

Any household consumer deposit data based on Bank of America internal data is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level. Whenever median household savings and checking balances are quoted, the data is based on a fixed cohort of households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through the most current month of data shown.

Bank of America aggregated credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

For exhibit 7, we define higher, medium, and lower wage industries by looking at the average hourly earnings (AHE) for each industry, based on the Bureau of Labor Statistics data. Industries with AHE higher than half a standard deviation than the national average are categorized as higher wage. Industries with AHE lower than half a standard deviation than the national average are categorized as lower wage. All else is categorized as medium wage.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1995
2. Younger Millennials: born between 1989-1995
3. Older Millennials: born between 1978-1988
4. Gen Xers: born between 1965-1977

5. Baby Boomer: 1946-1964

6. Traditionalists: pre-1946

Any reference to card spending per household on gasoline include all purchases at gasoline stations and might include purchases of non-gas items.

Insurance payments cover ACH, credit and debit and online bill pay. These payments may also include other categories such as travel and life insurance where these are paid directly rather than through payroll. These categories are likely to be small in relation to homeowners' and auto insurance.

Additional information about the methodology used to aggregate the data is available upon request.

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Disclosures

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